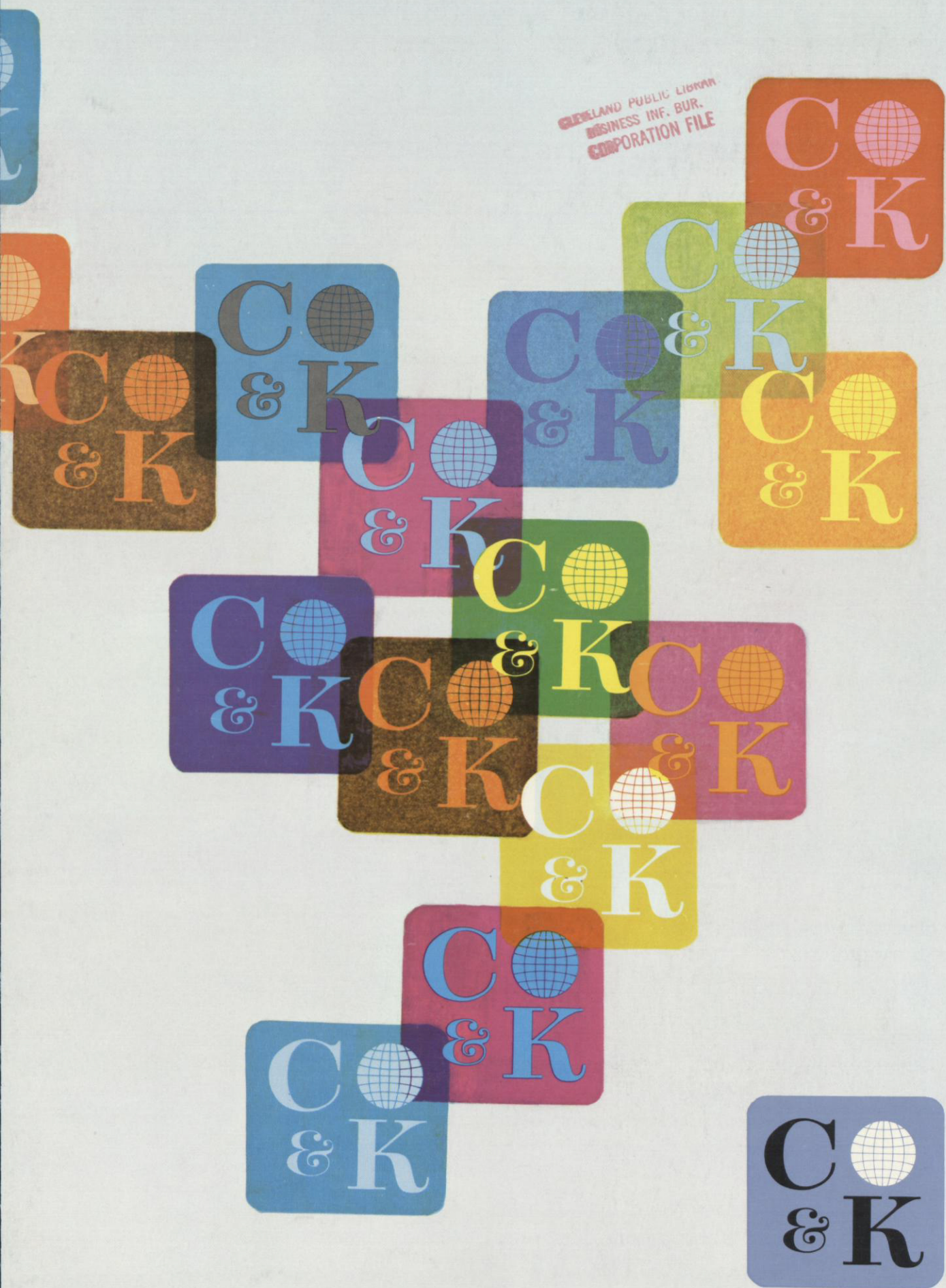


CLEVELAND PUBLIC LIBRARY
BUSINESS INF. BUR.
CORPORATION FILE



Extruits
COENE



Visitors entering Brussels have this view of Etablissements Coene, S. A. C&K entered the flavor and fragrance business this year by the acquisition of Coene and its affiliated company, Essencefabriek Gruno.

HIGHLIGHTS OF 1968

	1968	1967
Net sales	\$76,011,000	\$66,120,000
Earnings before taxes	6,670,000	4,674,000
Net earnings	3,014,000	2,329,000
Stockholders' equity— end of year	33,123,000	31,629,000
Average shares outstanding	2,064,536	2,060,186
Per share:		
Net earnings	\$ 1.46	\$ 1.13
Dividends paid	.80	.80
Stockholders' equity	16.02	15.36
Number of stockholders	4130	4504
Number of employees	2900	2700

THE PRESIDENT'S REPORT

To Our Stockholders:

The year 1968 was one of substantial recovery for us. Sales were a record high and earnings per share, before recognizing the impact of the federal income tax surcharge, brought us above the peak reached in 1965.

Net earnings for the year were \$3,013,761 or \$1.46 a share after giving effect to the equivalent of 14 cents a share for the tax surcharge or, measured on a 1967 basis, 42 % better than the \$1.13 a share reported in that year. Net earnings for 1967 were \$2,328,698.



Sales for 1968 were \$76,011,000, up 15 % from \$66,120,000 reported in 1967. A major part of the increase was greater textile machinery business.

Profit turnaround in 1968 in the main can be attributed to the performance of the Textile Machinery Group. Higher volume of deliveries, coupled with full-scale output from the new North Adams, Massachusetts plant and substantial improvements in efficiencies in our weaving machinery operations, were chiefly responsible.

Other groups did not fare quite as well as textile machinery. Lower volume resulted in somewhat smaller profit return for plastics machinery, product mix and other pressures led to some reduction in profitability in packaging machinery operations, and slower demand for reinforced plastics was mainly the cause of a very modest drop in Chemicals Group returns.

1968 witnessed tangible evidence of benefit from effort directed in recent years to management development programs, formalized planning, critical examination of business objectives and the modernizing of plants and equipment.

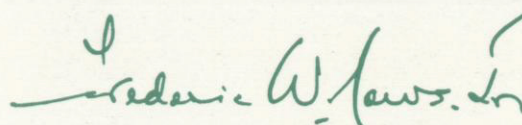
Since the beginning of 1960 we have spent over \$22 million in improving factory buildings and equipment. Seven new plants have been built, and several extensions of these and others were completed.

Planning on a more formalized and long-range basis has charted a course of sound growth for us with the aims of growing in the fields in which we are already established and capitalizing there and elsewhere on profit opportunities not wholly dependent on the cyclical patterns of capital goods.

Directly related to some of these programs was our entrance in 1968 into the flavors and fragrances business in Europe, where we acquired the firms Coene and Gruno in Belgium and Holland. This brings us into an industry which promises for us considerable further growth in Europe and offers opportunity to establish its counterpart in the United States. Similarly, planning is under way to manufacture dyestuffs in Europe through the medium of a joint venture with an important European chemical company. The pooling of resources and know-how in this association should stimulate additional growth of our dyestuffs in the United States. We are also planning the acquisition of the business of a New York importer of chemical raw materials which will bring additional strengths to the Chemicals Group.

As a company grows and diversifies its activities the importance of building competent management becomes increasingly great. Much attention has been paid to this responsibility in recent years, and mounting benefits are evident as a result.

With the accomplishments of 1968 behind us, and with a sound foundation now laid for further advances, we enter 1969 with a high degree of confidence. Another excellent year of growth seems in promise for Crompton & Knowles.



Frederic W. Howe, Jr.
President

January 20, 1969



This modern homemaker doesn't have to worry about soil and water on her indoor/outdoor carpet. Production of these popular economical carpets by Ludlow Corporation and other fine floor covering manufacturers is possible because of our Hunter nonwoven technology.

TEXTILE MACHINERY GROUP

Sales \$37,000,000

Weaving machinery for apparel fabrics, towels, draperies, upholsteries, bedspreads and narrow fabrics

Mali machinery for apparel, industrial and home furnishings fabrics

Nonwoven systems for papermakers' and industrial felts, floor and wall coverings, blankets and disposable fabrics

Blending, carding and yarn-making machinery for yarns of natural, synthetic and blended fibers used in woven, knitted and tufted fabrics

Equipment for finishing woven, knitted and nonwoven fabrics

Eight plants located in California, Georgia, Massachusetts, North Carolina, Rhode Island and South Carolina

Textile machinery business in 1968 showed substantial improvement over the generally unfavorable conditions which prevailed in 1967.

Virtually all product lines contributed to the improvement. The number of jacquards shipped was the highest in years. Deliveries began in the year of a new generation of machines, the largest of their type anywhere in the world, for producing papermakers' felts. Improved models of equipment for needle-punched floor covering, and for blending natural and synthetic fibers for woven and knitted fabrics and for carpets were also

delivered. Narrow fabric needle loom shipments were at an all time high. Substantial rearrangements of weaving machinery operations were made to better serve our excellent repair parts and broadloom markets.

The new OFS outside filling supply loom was successfully installed in several customer plants to weave women's wear, upholstery and drapery fabrics without the use of bobbins. Significant numbers of new carding machines were shipped as the first results of our recent association with Stone-Platt Industries, Europe's leading textile machinery manufacturer. The Group also entered the used textile machinery business through a small southern acquisition.

At North Adams the new plant was placed in full production early in the year making it possible to ship the highest volume of nonwoven equipment in history. An addition to the Mauldin, S. C.

plant was completed to provide space to manufacture finishing equipment formerly purchased.

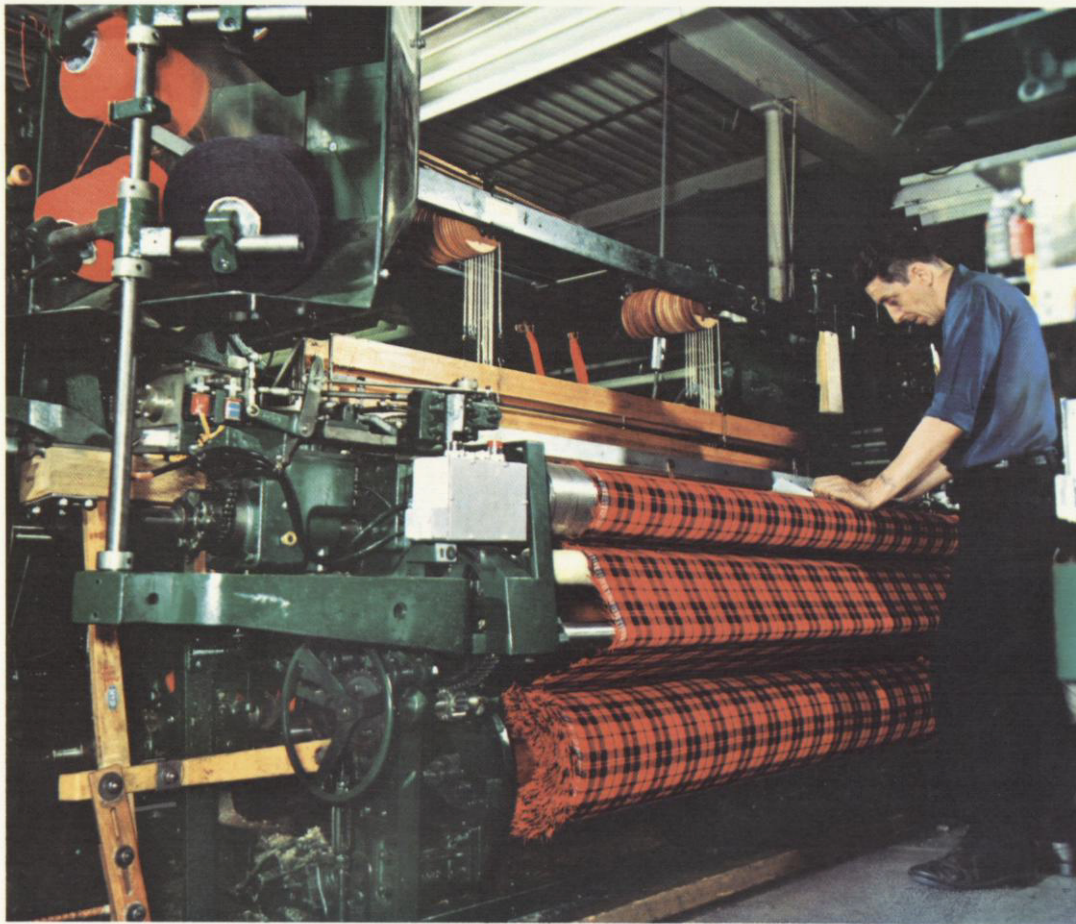
Malimo results were below expectations, but our belief that this unusual process will achieve its place in the fabric-forming machinery market remains unchanged.

The Textile Machinery Group looks to the future with confidence. Textile companies today are geared to take advantage of consumer trends toward leisure living and the growing emphasis on fashion. Our textile machinery divisions are particularly well suited to help textile producers profit from these changes, by applying experience in every major phase of textile manufacture and by satisfying the machinery needs of the industry as they arise.

In 1969 we will continue to strengthen our position in the fabric-forming machinery market by further development of our nonwoven systems, broadening

Colorful towels for today's decorated bath come in varieties to suit every taste. These velvety Cannon Royal Family towels were woven on C&K jacquard looms.





Attractive apparel fabrics are now being woven more economically on C&K's outside filling supply looms.

our line of weaving machinery, directing further attention to the knitting machinery field, and identifying more specifically the place of the Mali process in the total fabric-forming area. We will also continue to strengthen our position as a supplier of fiber processing equipment by further developments in blending machinery, and by offering Platt equipment for other steps necessary in yarn manufacture. Our finishing machinery lines will be broadened so as to develop the ability to offer complete ranges of equipment for finishing woven, knitted and nonwoven fabrics.

In 1960 the Company as a supplier of weaving equipment had only one textile machinery line to offer. In the few years since that time it has advanced to the stage where it can now offer selected equipment for every phase in

the complete cycle of textile manufacturing. Current programs are intended to reinforce this unmatched position in the textile machinery industry.

Order backlog is considerably above a year ago, with the trend of inquiries and incoming orders indicating its continuance. Thus the Group may be expected to show further improvement in 1969.

AUTOMOTIVE

Sales \$4,800,000

The installation of additional special purpose machinery early in 1968 doubled production of axles and other truck components. This higher activity benefited unit costs, but final results were unsatisfactory. This operation is now undergoing comprehensive review to seek ways of improving its return.



Sophisticated tasters on Coene's flavor panel meet regularly to develop appealing and distinctive flavors for new consumer products.

CHEMICALS GROUP

Sales \$13,500,000

Dyes and chemicals for fabrics and yarns of synthetic and natural fibers

Flavors for beverages, candies, bakery and dairy products and pharmaceuticals

Fragrances for perfumes and cosmetics

Colors for foods, drugs and cosmetics

Colors for plastic products

Reinforced plastic equipment for corrosion-resistant applications in the chemical, paper, leather and textile industries

Nine plants located in Illinois, Massachusetts, New Jersey, Ohio, Pennsylvania and Texas and in Belgium and the Netherlands

Sales of the Chemicals Group were substantially ahead in 1968. Related profits did not quite keep pace because of factors affecting the performance of smaller divisions.

Dyestuff business increased in 1968 because of growing demand by the textile industry for Althouse colors and the gratifying reception of our new products. Sales of Bates food colors reached the highest level in the history of that division. Both these product lines posted earnings improvements. The Plastics Color Division achieved good sales growth but earnings lagged because of costs associated with the first year of operation of the enlarged New Jersey facilities. Beetle Division operations were unsatisfactory because of reduced spending by the chemical industry for reinforced plastic corrosion-resistant equipment and costs associated with the acquisition of a small business producing similar equipment in Texas.

The year 1968 saw Crompton & Knowles enter the flavor and fragrance business by the acquisition of Etablissements Coene, S.A., Brussels, Belgium and Essencefabriek Gruno, N.V., Weesp, Netherlands. These two companies have an outstanding reputation in the fields of natural and synthetic flavors for use in foods and pharmaceuticals and fragrances for perfumes and cosmetics. We believe this area offers excellent growth opportunities throughout the world, and will increase the percentage of the Corporation's business not directly related to capital goods spending cycles.

During the year we broadened our Althouse line of dyes for synthetic fibers by the introduction of a new Nylanthrene B series for low liquor ratio dyeing of nylon. A number of products offering improved quality and coloring versatility were added to other lines of nylon and acetate colors. Further advances took place in our program to market disperse dyes for polyester and other synthetic fibers, and modified basic colors for acrylic and basic dyeable polyamide and polyester fibers. A new southern service laboratory and warehouse was opened in July to expand our service to the important southern textile industry.

The new Somerset, New Jersey plant of the Plastics Color Division was placed in full operation by the end of 1968 with the addition of a second line for the production of color concentrates. The availability of two lines insures both rapid processing of large volume orders and fast color matching service for customers. Beetle's corrosion-resistant grating and polypropylene-lined equipment enjoyed increased customer acceptance, offsetting somewhat the

effect of lower capital spending for Beetle's engineered products.

Congress did not take action during the year to repeal the American Selling Price system for valuing imported dyes for duty purposes. At this time it is uncertain whether such legislation will be introduced again during 1969.

The basic objective of the Chemicals Group is growth in areas offering superior return on investment. To do this we plan to strengthen present product lines, use specialty skills in other geographic markets, expand present businesses into closely related fields, and acquire other specialty chemical activities. Several steps under consideration are expected to contribute to these goals.

These attractive jerseys knitted from polyamide and basic dyeable polyester yarns were dyed in a single operation using Althouse Nylanthrene and Altocryl dyes. The knitted slacks and the carpet also were dyed with Althouse Nylanthrene colors.





Flavor and color are the silent partners in the fun of a birthday party. Coene/Gruno flavors and Bates colors add much of the taste and eye appeal to cakes, candies, ice creams, soft drinks and other festive foods.

Wet press cake is placed in drying ovens. Later it will be ground and standardized into finely powdered high strength dyes.

A tentative agreement has been reached with an important European chemical company to form a joint venture to manufacture and market the largely complementary dyestuffs of both companies throughout Europe. Extensive marketing evaluation indicates unusual opportunities in Europe for the dyes and services now offered by our Althouse Division to its customers in the Western Hemisphere. A new plant is planned for the manufacture of the joint venture's complete line of dyes, which will be sold through an existing well-qualified marketing organization. These arrangements are expected to be in effect during 1969.

A tentative agreement has also been reached to acquire ownership of a New York corporation whose business is the importation and sale of chemicals. This acquisition will bring additional strength

to the marketing and manufacturing functions of the Group.

In the coming year we will continue to broaden our line of dyes for nylon, polyester, and acrylic fibers. We plan to strengthen our position in the European flavor and fragrance market and to investigate opportunities to market those products in the United States in conjunction with Bates colors. Proprietary Beetle products will be sought to reduce dependence on engineered equipment for the chemical process industry. Plastics Color will concentrate on improving results from the three plants it presently operates. The Group will continue its acquisition program in suitable areas.

The outlook for 1969 is promising, based on business conditions in the industries served.



PLASTICS MACHINERY GROUP

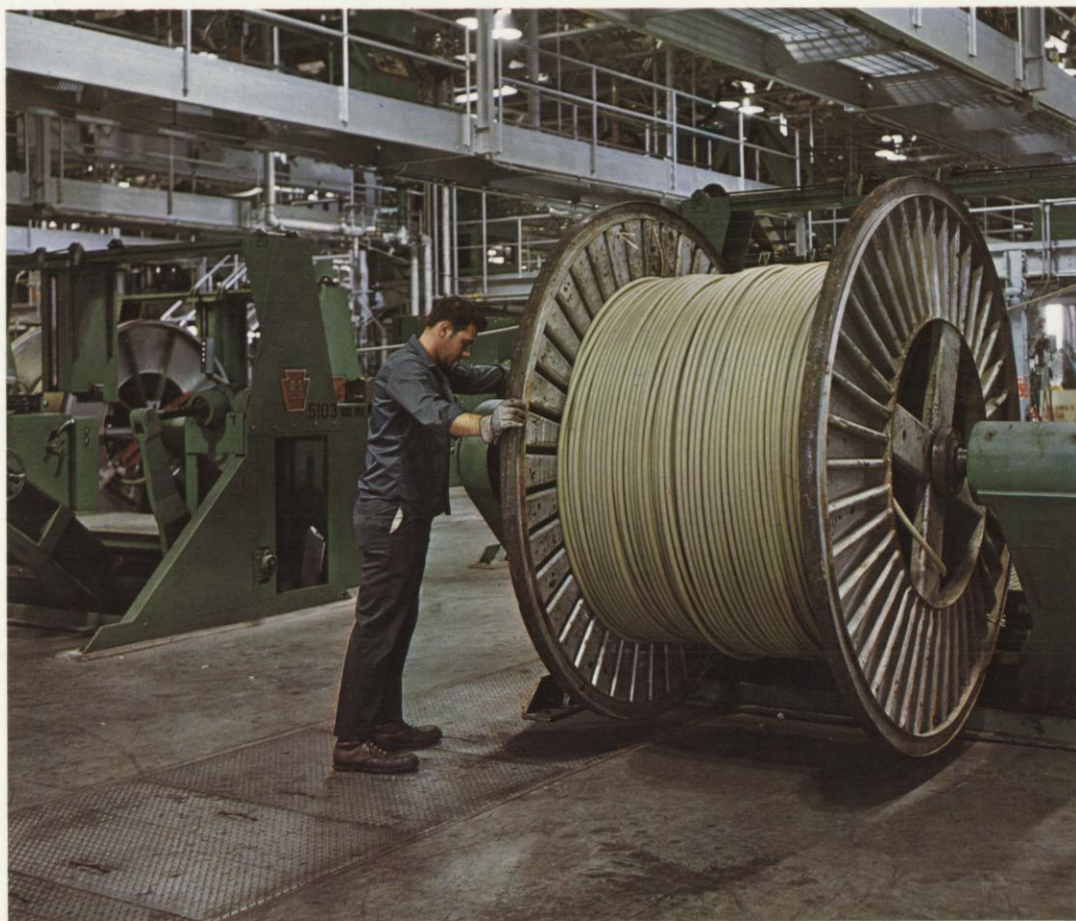
Sales \$15,700,000

*Extrusion systems for insulated wire and cable,
plastic pipe, sheet, blown and slit film,
synthetic fibers, plastics compounding and
extruded rubber products*

Two plants located in Connecticut and Michigan

Sales volume in 1968 did not reach that of the record set in 1967. The pace of incoming orders slackened toward the end of 1967, occasioned notably by a reduction in plant expansions in the industries served by the Group, and it was not until mid 1968 that recovery began to take place. Despite the generally slower pace of capital expenditures by the plastics industry, however, the Group was able to increase its share of the plastics machinery market. Wire and cable machinery sales for 1968 were closer to a normal level of activity for the industry than the record years of 1965 and 1966.

Aluminum high voltage cable insulated with cross-linked polyethylene at this Kaiser Aluminum plant is reeled as the final step in Davis-Standard's continuous vulcanizing insulation system.

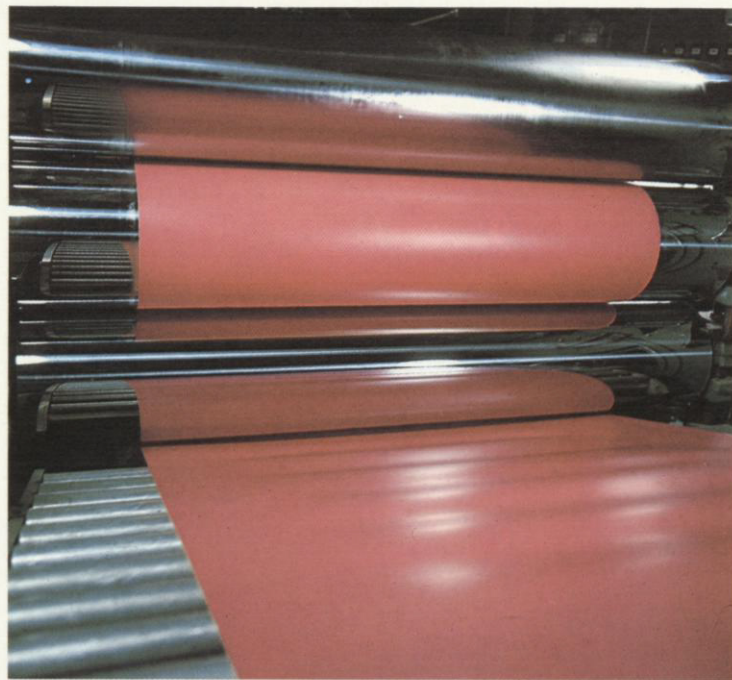


The year saw the completion of additions to both the Davis-Standard and Goulding plants. At Davis-Standard, the sales service laboratory was doubled in size and the manufacturing area was increased. The Goulding addition alleviates crowded manufacturing conditions and provides for an expanded engineering capability.

The new sales service laboratory contains the most modern and extensive display of extrusion systems available anywhere in the plastics machinery industry. Complete systems can be demonstrated or operated as a pilot plant for customers for trial runs of insulated wire and cable and extruded plastic sheet, pipe, blown film and slit film. The laboratory will also be used extensively for product improvement and for the development of extrusion techniques for new plastics resins.

The first slit film system was shipped during 1968. This unique system slits and stretches extruded flat sheets of plastic film to form ribbon yarns from which carpet backing, industrial bagging, rope and twine are made. Refinement of this system offers the potential for the manufacture of other types of synthetic yarns for use in carpet pile, home furnishings fabrics and various industrial products. Crompton & Knowles' position to capitalize on the growth foreseen for this new technology is unequaled because of the combination of capabilities represented by our Plastics and Textile Machinery Groups.

The future for wire and plastics machinery is promising indeed. The consumption of insulated wire and cable has increased at an average annual rate



Highly polished Davis-Standard/Goulding rolls chill a continuous flow of plastic sheet from a die which has shaped the extruded resin to the precise thickness required.

of about 15 % during the past five years. The trend toward underground power distribution, the demand for transmission of higher voltages and the growth in per capita use of electricity are factors which will assure future growth.

Thermoplastic resin use has increased on the average by about 12 % annually during the last five years. Consumption of extruded thermoplastics is expected to continue to grow rapidly because of additional uses being found for plastics in appliances, automobiles, aircraft, home construction, building products, packaging, furniture and textile yarns.

The outlook is bright. Developments now underway, together with acquisition and licensing programs, will strengthen our market position in both wire and cable equipment and plastics extrusion systems.

PACKAGING MACHINERY GROUP

Sales \$5,000,000

Packaging machinery for cartoning, overwrapping or pouching drugs, pharmaceuticals and cosmetics, bakery and dairy products, candies, meats, paper products, and other industrial items.

Two plants located in Illinois and Massachusetts

Sales of packaging machinery in 1968 were the highest in the history of the Group due mostly to increased shipments of special purpose machinery involving a high degree of engineering and mechanical sophistication. This higher volume of business did not produce a proportionate increase in net earnings because of a less favorable product mix, and price and cost pressures.

In 1968 our packaging machinery divisions continued to concentrate on the development of wrapping, cartoning, multi-packing, and pouching machinery to reduce packaging costs for customers and to solve specific industrial packaging problems resulting from the evolution of package designs and materials. Illustrative of this activity was the engineering of equipment to wrap and pack bottled antiseptic in packages newly designed for greater consumer convenience, at speeds which obsolete prior models; and the development of completely automatic in-series machinery processes to handle, fill, wrap, and carton confectioneries at greatly improved operating efficiencies and speeds several times that of original models.

Our Packaging Machinery Group has the resources to capitalize on the rapidly

growing use of packaging arising from trends toward self-service retailing, the use of package design to gain market advantage for products, the rapid improvement in packaging materials, and the need for more product protection. The Group enters 1969 with a booked order position lower than a year ago, but anticipates satisfactory results for the year.



This Redington Carton-King cartons Bromo Seltzer automatically at speeds of up to four every second.

CONSOLIDATED EARNINGS AND RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1968 WITH COMPARATIVE FIGURES FOR 1967

	1968	1967
Net sales	\$76,011,228	66,120,296
Cost of sales	57,285,121	51,890,330
Gross profit, exclusive of depreciation	18,726,107	14,229,966
Royalties and commissions income	665,955	637,007
Other income, net	314,770	717,391
	<u>19,706,832</u>	<u>15,584,364</u>
Selling, general and administrative expenses	10,914,414	9,151,076
Depreciation	1,511,203	1,373,419
Interest expense	610,719	385,436
	<u>13,036,336</u>	<u>10,909,931</u>
Earnings before income and state taxes	6,670,496	4,674,433
Income and state taxes:		
Federal and foreign income taxes	3,207,355	2,056,784
State taxes	449,380	288,951
	<u>3,656,735</u>	<u>2,345,735</u>
NET EARNINGS FOR THE YEAR, \$1.46 per share (1967—\$1.13)	<u>3,013,761</u>	<u>2,328,698</u>
Retained earnings at beginning of year	21,454,915	20,163,112
Adjustments:		
Applicable to pooled subsidiary	—	283,528
Provision for prior years' Federal income and state taxes no longer required	—	316,000
As adjusted	<u>21,454,915</u>	<u>20,762,640</u>
	<u>24,468,676</u>	<u>23,091,338</u>
Deduct:		
Cash dividends paid, \$.80 per share	1,651,629	1,636,423
Retained earnings at end of year	<u>\$22,817,047</u>	<u>21,454,915</u>

See accompanying notes to financial statements.

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1968

ASSETS

	1968	1967
Current assets:		
Cash	\$ 2,117,508	1,728,706
Marketable securities, at cost (market—\$328,651) plus accrued interest	338,710	558,885
Notes and accounts receivable, less allowance for doubtful items \$262,935 (1967 – \$297,323)	15,677,243	11,456,035
Inventories (note 2)	17,555,770	17,934,563
Prepaid expenses	1,173,688	1,029,447
Total current assets	36,862,919	32,707,636
Other investments:		
Other marketable securities, at 1965 market (1968 market – \$634,908)	599,650	599,650
Investment in non-consolidated subsidiary, at equity in net assets (note 1)	266,514	385,077
Investments in and advances to foreign joint ventures, at cost less reserve \$391,594	17,982	17,982
Total other investments	884,146	1,002,709
Property, plant and equipment (note 3)	14,597,035	12,644,600
Formulae, trademarks, trade names, patents and patent rights, less accumulated amortization \$426,689 (1967 – \$363,612)	422,863	473,948
Costs of acquisitions in excess of underlying net book values	4,888,986	2,792,580
	<u>\$57,655,949</u>	<u>49,621,473</u>

See accompanying notes to financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	1968	1967
Current liabilities:		
Notes payable to banks and installments on long-term debt (note 4)	\$ 2,843,561	1,980,589
Accounts payable and accrued expenses	9,694,000	8,124,580
Federal and foreign income taxes and state taxes	2,042,476	1,519,925
Total current liabilities	14,580,037	11,625,094
Pensions (note 5)	486,000	597,000
Long-term debt (note 4)	7,308,596	3,768,994
Deferred Federal income taxes (note 6)	2,158,746	2,000,965
Stockholders' equity:		
Common stock, \$5 par value:		
Authorized 2,800,000 shares		
Issued 2,096,364 shares	10,481,820	10,481,820
Additional paid-in capital (note 8)	35,168	—
Retained earnings	22,817,047	21,454,915
	33,334,035	31,936,735
Less 28,923 shares held in treasury, at cost (1967 - 37,128 shares)	211,465	307,315
Total stockholders' equity	33,122,570	31,629,420
	\$57,655,949	49,621,473

NOTES TO FINANCIAL STATEMENTS

(1) Principles of Consolidation

The consolidated financial statements include the accounts of all subsidiaries, except one subsidiary considered to be not material, which is carried at the Company's equity in its net assets.

Operations of subsidiaries acquired during the year are included in the consolidated statement of earnings from the dates of acquisition.

(2) Inventories

Inventories at the lower of first-in, first-out cost or market:

	1968	1967
Finished goods and manufactured parts	\$ 8,724,858	9,474,189
Work in process	4,536,380	3,635,423
Raw materials and supplies	4,294,532	4,824,951
	<u>\$17,555,770</u>	<u>17,934,563</u>

(3) Property, Plant and Equipment

Property, plant and equipment at cost:

	1968	1967
Land	\$ 725,242	625,505
Buildings and building improvements	9,740,497	8,523,638
Machinery and equipment	16,913,078	15,108,709
Machinery leased to customers	577,428	426,285
Furniture and fixtures and miscellaneous equipment	2,436,236	2,282,154
Patterns, drawings, jigs, fixtures and small tools	1,286,300	1,286,300
Construction in progress	390,468	343,256
	<u>32,069,249</u>	<u>28,595,847</u>
Less accumulated depreciation	<u>17,472,214</u>	<u>15,951,247</u>
	<u>\$14,597,035</u>	<u>12,644,600</u>

Depreciation of property, plant and equipment is computed generally on the straight-line method at rates which are sufficient to write off the cost of the assets over the period of their estimated useful lives. Rates used are: buildings and building improvements 2%–20%; machinery and equipment 3%–20%; furniture and fixtures and miscellaneous equipment 4%–33½%.

(4) Long-term Debt

	Long-term	Current installments
20-year 5% sinking fund note payable in annual installments of \$265,000 until 1982	\$3,440,000	265,000
6.5% loan due 1970	1,813,000	—
7.15% notes due in equal installments from 1972 through 1978	1,412,600	—
7.25% loan due in annual installments of \$138,040	552,160	138,040
Other notes maturing through 1970	90,836	57,218
	<u>\$7,308,596</u>	<u>460,258</u>

(5) Pensions

The Company and its subsidiaries have non-contributory pension plans covering substantially all of their employees, the costs of which are being funded. Total pension expense for the year, before applying the credit described below, was \$985,137 including amortization of past service costs over periods not exceeding thirty years from 1964. As a result of 1964 amendments to the plan, \$486,000 (net after taxes) included in liabilities in the accompanying balance sheet is no longer required and is being credited to earnings at the rate of \$81,000 per year. The actuarially computed value of vested benefits as of January 1, 1968 exceeded by \$994,000 the sum of the pension fund assets, valued at cost, plus the balance sheet accrual for pensions.

(6) Investment Credit

Benefits derived from the investment credit provided by the Revenue Act of 1962 are being deferred ratably to future operations. The balance at December 31, 1968, \$547,367, is included in Deferred Federal Income Taxes.

(7) Stock Options

The 1966 Qualified Stock Option Plan provides for granting options to key employees (including officers and directors) to purchase 100,000 shares of the Company's common stock at prices not less than 100% of the fair market value on the date of grant. Options were granted during the year to purchase 5,000 shares at \$16.875 a share. There were outstanding under this plan at December 31, 1968 options to purchase 58,000 shares, net of cancellation of 2,000 shares, at prices ranging from \$15.4375–\$17.75 a share. These options are exercisable between two and five years from the date granted. At December 31, 1968 no options were exercisable under this plan.

Under an earlier plan, there were outstanding at December 31, 1968 options to purchase 17,400 shares at prices ranging from \$10.625–\$16.75 a share. During the year, under this plan, options were exercised to purchase 2,600 shares at prices ranging from \$4.0625–\$10.625 a share or a total of \$14,500 compared with market prices ranging from \$17.25–\$22.625 a share or a total of \$47,575. At December 31, 1968 options to purchase 9,000 shares were exercisable.

(8) Additional Paid-in Capital

Additional paid-in capital at December 31, 1968 consists of the following:

Excess of proceeds of stock sold under stock options over the cost of such stock to the Company	\$ 3,443
Excess of market value over cost of 6,000 shares of treasury stock issued under a restricted stock bonus plan	31,725
	<u>\$35,168</u>

(9) Long-term Leases

Real estate and production facilities are being leased by the Company under long-term agreements. Pertinent details of the leases are summarized below:

	Initial term (years)	Expiration date	Average annual rentals
North Adams, Mass. and Charlotte, N.C. plants	20	1987	\$178,000
Gibraltar, Pa. plant	20	1985	162,000
Pawcatuck, Conn. plant	25	1989	143,000
Franklin, N.J. plant	20	1987	20,000
Machinery and equipment (9 leases)	5–10	1972–1976	476,700

In addition to the annual rentals stated above, the Company is required to pay insurance, real estate taxes, maintenance and repairs, etc.

The leases on the North Adams, Charlotte, Gibraltar and Pawcatuck plants, which are owned by two of the Company's pension trusts, provide for renewal options of two additional five-year periods and thereafter on a year-to-year basis at an annual rental of 40% of the rent to be paid during the last year of the initial term of the leases. The lease on the Franklin plant provides for renewal options of two additional five-year periods at \$10,000 per year.

The Company has the option to purchase the machinery and equipment covered by one ten-year lease at prices substantially equivalent to the present value of the unpaid lease payments. All other machinery and equipment leases provide for subsequent unlimited one-year renewals at nominal rentals.

SOURCE AND USE OF FUNDS

YEAR ENDED DECEMBER 31, 1968 WITH COMPARATIVE FIGURES FOR 1967

	1968	1967
FUNDS WERE PROVIDED BY:		
Net earnings after all charges	\$3,013,761	2,328,698
Charges to earnings, such as depreciation and deferred taxes, not requiring funds	1,769,239	1,611,525
Funds from earnings for the year	4,783,000	3,940,223
Long-term debt increase (decrease)	3,539,602	(377,516)
Plant and equipment retired, less accumulated depreciation	183,254	429,186
Decrease (increase) in investments in non-consolidated subsidiaries	118,563	(385,077)
Sale of 2,600 (2,000 - 1967) shares of treasury stock under stock option plan	14,500	8,125
Net increase in working capital resulting from subsidiary acquired	—	206,813
Provision for prior years' Federal income and state taxes no longer required	—	316,000
Total funds provided	\$8,638,919	4,137,754
FUNDS WERE USED FOR:		
Cash dividends paid to stockholders at the rate of \$.80 per share	\$1,651,629	1,636,423
Purchase of machinery, equipment, and other productive facilities	2,986,344	1,440,328
Book value of plant and equipment of businesses acquired	692,206	—
Costs of acquisitions in excess of underlying net book values	2,096,406	—
Purchase of 3,300 shares of treasury stock	—	53,117
Acquisition of patents and patent rights	11,994	3,060
Increase in working capital	1,200,340	1,004,826
Total funds used	\$8,638,919	4,137,754

THE BOARD OF DIRECTORS AND STOCKHOLDERS CROMPTON & KNOWLES CORPORATION:

We have examined the consolidated balance sheet of Crompton & Knowles Corporation and subsidiaries as of December 31, 1968 and the related statement of earnings and retained earnings and the consolidated source and use of funds statement for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated earnings and retained earnings present fairly the financial position of Crompton & Knowles Corporation and subsidiaries at December 31, 1968 and the results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Also, in our opinion, the accompanying consolidated source and use of funds statement for the year ended December 31, 1968 presents fairly the information shown therein.

January 20, 1969

Peat, Marwick, Mitchell & Co.

RECORD OF GROWTH— 10 YEARS ENDED DECEMBER 31, 1968

	1968	1967	1966
OPERATIONS			
Net sales	\$ 76,011,228	66,120,296	66,142,900
Earnings before income and state taxes	\$ 6,670,496	4,674,433	5,889,373
Federal and foreign income and state taxes	\$ 3,656,735	2,345,735	2,965,941
Net earnings	\$ 3,013,761	2,328,698	2,923,432
Net earnings as a per cent of sales	4.0	3.5	4.4
Dividends paid	\$ 1,651,629	1,636,423	1,604,686
Depreciation	\$ 1,511,203	1,373,419	1,291,295
FINANCIAL POSITION			
Current assets	\$ 36,862,919	32,707,636	31,637,308
Current liabilities	\$ 14,580,037	11,625,094	11,559,592
Working capital	\$ 22,282,882	21,082,542	20,077,716
Ratio of working capital	2.5	2.8	2.7
Long-term debt	\$ 7,308,596	3,768,994	4,062,471
Capital expenditures (excluding amounts acquired on acquisition of subsidiaries and going businesses)	\$ 2,986,344	1,440,328	1,971,230
Stockholders' equity	\$ 33,122,570	31,629,420	30,237,141
OTHER STATISTICS			
Per share:			
Net earnings	\$ 1.46	1.13	1.46
Dividends paid	\$.80	.80	.80
Working capital	\$ 10.78	10.24	10.03
Stockholders' equity	\$ 16.02	15.36	15.11
Market price, high-low	\$ 26¾–14½	21 ¼–14¼	28 ⅞–13 ⅞
Average shares outstanding	2,064,536	2,060,186	2,002,970
Net earnings as a per cent of stockholders' equity at beginning of year	9.5	7.7	10.1

1965	1964	1963	1962	1961	1960	1959
62,001,703	52,354,356	45,580,820	44,350,017	32,650,669	31,142,645	22,800,362
6,924,922	6,345,600	5,507,120	4,302,151	5,163,214	5,174,536	3,400,216
3,767,116	3,654,733	3,249,100	2,362,475	2,570,000	2,656,500	1,913,400
3,157,806	2,690,867	2,258,020	1,939,676	2,593,214	2,518,036	1,486,816
5.1	5.1	5.0	4.4	8.0	8.1	6.5
1,385,388	1,164,232	1,158,160	1,158,949	938,209	898,292	605,804
1,220,568	1,167,480	1,097,518	1,053,456	828,141	781,652	695,116
28,737,661	26,543,620	24,236,878	22,458,729	18,697,992	18,023,154	15,078,162
9,429,664	8,227,940	7,518,875	6,562,136	7,423,772	5,248,293	3,459,610
19,307,997	18,315,680	16,718,003	15,896,593	11,274,220	12,774,861	11,618,552
3.0	3.2	3.2	3.4	2.5	3.4	4.4
4,555,954	5,070,434	5,383,914	5,676,994	1,263,000	1,481,555	1,100,000
1,978,228	1,445,479	1,293,079	1,011,087	1,240,703	1,172,654	762,234
28,857,573	28,180,013	26,548,959	25,544,704	23,848,982	22,779,963	20,266,054
1.59	1.39	1.17	1.00	1.37	1.32	.86
.70	.60	.60	.60	.50	.50	.35
9.66	9.30	8.68	8.22	6.03	6.63	6.73
14.44	14.31	13.78	13.21	12.75	11.82	11.74
26½-14¼	17½-11⅞	13½-10⅞	17⅞-9	19⅞-11⅜	12-8	9¼-4
1,981,128	1,940,384	1,929,932	1,930,750	1,887,584	1,906,584	1,731,384
11.2	10.1	8.8	8.1	11.4	12.4	7.6

Amounts per share are stated after appropriate adjustments for the stock splits effective May 18, 1960 and March 29, 1966 and for the number of shares held in treasury.

OFFICERS

Frederic W. Howe, Jr.
President

James Barringer
Executive Vice President,
Treasurer

James H. Hunter
Vice President

William O. Fisher
Vice President

James W. L. Monkman
Vice President

William H. Preston
Vice President

J. Joseph Cranmore
Vice President

Robert T. James
Vice President

Charles B. Helms, Jr.
Controller,
Assistant Treasurer

Roger R. Bradford
Assistant Treasurer,
Secretary

Howard W. Moore
Assistant Treasurer



Mr. Howe and Mr. Barringer keep closer to operating divisions using the Company plane.

DIRECTORS

James Barringer
Executive Vice President

Edward L. Clifford
President,
Worcester County National Bank,
Worcester

William O. Fisher
Vice President

Carl S. Forsythe
Partner,
Forsythe, McGovern, Pearson & Nash,
New York

Frank J. Graziano
Senior Vice President,
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New York

Frederic W. Howe, Jr.
President

James H. Hunter
Vice President

John Jeppson
President,
Norton Company,
Worcester

James W. L. Monkman
Vice President

William H. Preston
Vice President

William J. Speers, Jr.
Partner,
Warner & Stackpole,
Boston

Robert W. Stoddard
Chairman of the Board,
Wyman-Gordon Co.,
Worcester

John C. Whitehead
Partner,
Goldman, Sachs & Co.,
New York

TRANSFER AGENTS

First National City Bank, New York
Worcester County National Bank,
Worcester

REGISTRARS

Morgan Guaranty Trust Company,
New York
Mechanics National Bank, Worcester

Common stock listed on the New York
Stock Exchange.

The annual meeting of stockholders will
be held at the Company's offices in
Worcester on April 8, 1969.



Mr. Forsythe

Mr. Speers



Mr. Preston

Mr. Monkman



Mr. Hunter

Mr. Fisher

Mr. Stoddard



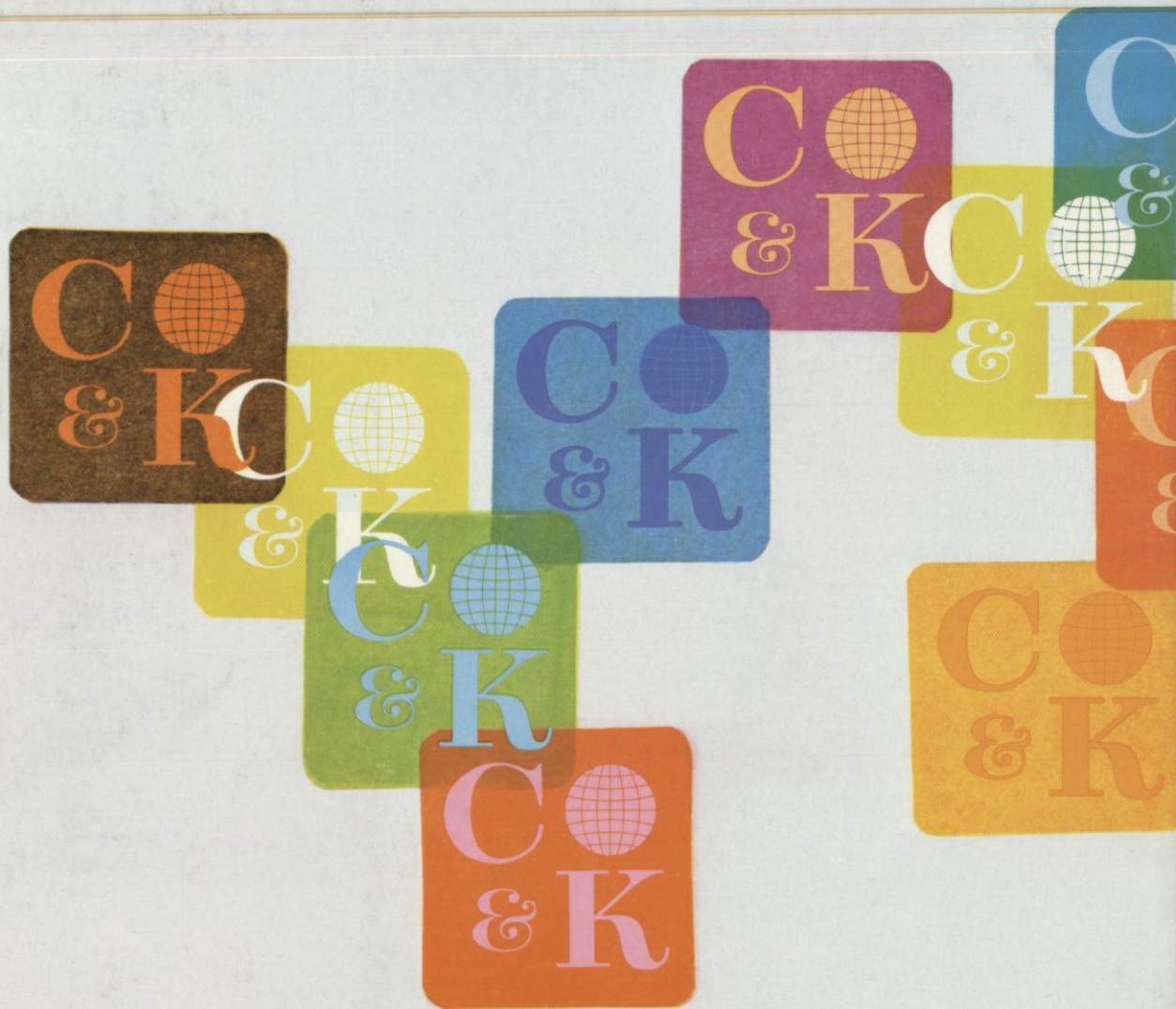
Mr. Jeppson

Mr. Clifford



Mr. Graziano

Mr. Whitehead



Crompton & Knowles Corporation WORCESTER, MASSACHUSETTS 01601

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